Integrated Finance Webinar

September 17, 2015

Operator: Please stand by. Good day and welcome to the Integrated Finance Conference Call. Today's conference is being recorded. And at this time, I'd like to turn it over to Matthew Lee. Please go ahead sir.

Matthew Lee: Hi. Good morning to everyone joining from the West Coast, and good afternoon to everyone joining from the East Coast. This is the Integrated Finance Webinar hosted by the Office of Community Services.

We have over 100 participants in over 20 states and even more communities across the United States that are registered and are joining us today. So thank you all for convening.

My name is Matthew Lee and I'll be the moderator, and I'm the Founder and Director of HomeGrown Advisors. HomeGrown Advisors is a national network of social entrepreneurs providing technical assistance to community development initiatives including some folks joining the call today.

Before getting started, I'd like to thank the Office of Community Services for creating this space and providing the resources to organize and host this convening.

To kick things off, I'd like to introduce everyone to Andrew Kolly from the Office of Community Services who would like to say a few words.

Andrew Kolly: Yes, thanks Matt. I'm filling in for (Gerald Shanlin) here. But I am a Program Specialist with the Office of Community Services and I just wanted to welcome everyone to this Webinar. It should be really informative with a great panel of financial experts and grantees offering perspectives on an integrated finance approach to community development.

And as many of you know, the Community Economic Development program or CED is a federal grant program that provides funding for community development corporations or what we like to call CDCs that address the economic needs of low income individuals and families through the creation of sustainable business development and employment opportunities.

So we hope this presentation will provide lots of relevant information for both current and future CDC grantees as well as any other organizations that are engaged in community development.

So thank you again for joining us and please enjoy the presentation.

Matthew Lee: Thanks Andrew.

And as all of you are probably aware that the grantees and prospective CADHFFI grantees often need various types of funding; equity, debt, grants. And that's to invest in the necessary property and equipment or resources needed to get the projects off the ground and sustainable.

Typically, there are around three options. Some wait to use all the necessary funds from public grants and donations; some folks, you know, approach a conventional lender which might typically get you through the eyes of traditional lending criteria.

The third approach is, and what we're here to talk about today, is seeking funding from both sources and even complementary sources which we call integrated finance approach to capital. And that's a way to leverage public funds in your communities that are complementary to the CED or other public funding you may have already received.

So today we're lucky to have a great group of experts. Two projects, one of which is CED funded; that's Jela Ellefson from Detroit market - sorry, Eastern Market from Detroit Michigan.

We have Brahm Ahmadi from Oakland California, and Bob Porter calling in from Pacific Community Ventures. And I didn't mention about Brahm, but Brahm is with People's Community Market. He's the CEO.

So just a few housekeeping items before we get started. I know some folks might have some challenges with looking at the presentation online. It was just recently emailed to all you so I would encourage you to check your emails if you're not able to look at the presentation through the online platform.

And I also highly encourage you to start asking questions. This is an open forum that we will be answering questions at the end after we hear from our three presenters.

You can list your questions on the digital platform or through OCS Registrars email address and I can give that to you now. That's O-C-S Registrar, R-E-G-I-S-T-R-A-R at I-C-F-I Dot Com. And whatever questions we don't get to on this call, we will follow-up either sometime today or in the short future to answer those as they came in.

So to kick things off, I'd like to hand things off to Jela Ellefson. Jela is the Community Development Director with Eastern Market, and she'll start the conversation going forward here.

Jela Ellefson: Good afternoon everybody. Thank you for joining us.

I will be talking today about a project at Eastern Market Corporation, the non-profit that I work for, on regionally anticipated being developed by a partner. And then eventually we step into the role of the planner, the developer, and a co-operating partner because of an opportunity that presented itself and was too good not to take advantage of.

So Eastern Market, the one in Detroit not to be confused with the one with Washington DC, is what we refer to as a food hub. A food hub is a place where multiple components of the food system are occurring specifically here is the retailing, wholesaling, processing and distribution of the food system.

Around these activities, there's a tremendous opportunity for creation of additional economic development, private investment, job creation and overall improvement to the household incomes of residents of Detroit.

So the Eastern Market has been around for 124 years since 1891. What used to be originally a wholesale market over time evolved into a retail market.

We occupy five city blocks. And the large yellow rectangle indicates the district core, but the blocks surrounding this orange rectangle are businesses that to get in with the Public Market Core cost you the Eastern Market District.

Most American cities used to have an Eastern Market of their own, but because of the pressures from the real estate market, many have been developed and turned into other uses such as housing, loft. Loft conversions were very popular in light industrial districts so over the last 15 years. Also entertainment districts, nighttime and so on.

So we've been, you know, sort of tongue-and-cheek lucky that this has not happened in Detroit yet. However, times are changing, and we definitely are looking into the next 124 years and how do we want to preserve our identity and authenticity as a working food district.

The small red rectangle towards the bottom of the slide indicates where the Red Produce -- red ((inaudible)) fresh produce -- store is located.

You will see that the district has been split by a freeway. We joke that this is a freeway that in the 1950s separated the produce and the meat department. That is because we are open every Saturday of the year. There are five market structures and primarily 90% of our farmers and vendors sell fruits and vegetables.

However on the other side of the freeway is extremely successful butcher shop. And this butcher shop has some parts of it that are underutilized. And also one of the owners of the butcher shop sits on our Board of Directors. So through these relationships, we have developed a concept of opening a green grocer inside the butcher shop; it's called Gratiot Central Market.

The challenges that we face is that the same way that freeway creates this physical barrier, a lot of people when they are done with their shopping and are towards the southern edge of the District don't feel like crossing that freeway even though there is a pedestrian bridge and there's a vehicular bridge with sidewalks. Still there's something that just makes people turn around and go home.

The other thing is that there's also a slight demographical shift. A lot of the people shopping at the public market come from the suburbs. A lot of the people who shop at Gratiot Central Market are primarily ((Inaudible)) residents.

In the culture of Detroit is very important and the Gratiot Central Market is, as I mentioned, a very successful butcher shop. They process about $30 million a year in sales of meat and meat products. Seventy-five percent of those $30 million are SNAP purchases; SNAP being the Supplemental Nutritional Assistance Program also known as food stamps.

So we saw a tremendous opportunity to do a couple of things. I'm sorry I skipped this slide but this slide describes the non-profit that manages Eastern Market. And as part of the Market, there's the wholesale market; it happens during Michigan growing season which is from June to about the end of October.

This is what used to be the backbone of Eastern Market. It's Monday through Friday, midnight through 5:00 am; a lot of semi-truck traffic, a lot of large orders being filled.

The year around Saturday market, 52 Saturdays a year. And then seasonal Tuesday market which is a scaled-down more community focused version of Saturday, and a seasonal Sunday three market which is a retail platform for people who not necessary grow food but who make products.

And in the retail source environment that the City of Detroit is, think of it as Etsy on the ground; an opportunity for those whose primary business might not be making of these products to give them a chance to meet a lot of new customers.

So as I mentioned, the (Red Truck) fresh produce is meant to achieve a number of objectives; take advantage of this empty space the management of Gratiot Central Market was looking to utilize differently, but also built upon the lessons learned from Eastern Market Corporation's food access programs. We run a different food access programs whether it is nutritional education, supply or demand strategies, kind of a human behavior research; what makes people want to go and try a strange new vegetable like broccoli.

But also Gratiot Central Market is open year round six days a week. Outside of the summer season, Eastern Market is open one day a week and it's Saturday.

So wanted to be able to reach customers more days a week and also offer another grocery store in the city of Detroit where a lot more could be. Right now, the City of Detroit, 19 of our census strikes have been designated food ((inaudible)) by USDA, and access to fresh fruits and vegetables is definitely an issue.

We would not be able to do this without strong partnerships. Eastern Market Corporation achieves a lot of our programs and projects that turn out to be successful through partnerships with others, and that's what I want to emphasize here, and also leveraging of grants.

This specific project was funded through a combination of Philanthropic Corporate Federal Grant Funds and also through traditional lending.

So the Red (Strike) Fresh Produce right now is under construction. We should be finished in another week or two. We are opening up a part of the wall that faces the Eastern Market District to the north. We are going to put a retractable garage door as a way to have additional opening and additional visual connection with the public market across the street, and also as a way to attract more customers inside through engagement.

As I mentioned, this project was possible through a combination of financing and funding. Primarily the CEDHFFI grant which spent three years, and then we have a couple of foundation grants that are spread over two years, and then some pre-development and programming funding from United Way for Southeast Michigan.

To bridge the long-term of the CEDHFFI grant and those two primary philanthropy grants, we reached out to JPMorgan Chase. Over the past year, JPMorgan Chase has definitely established more of a presence in Detroit through their dedication to not only philanthropic but also through additional financing product.

And we were able to get $250,000 line of credit that because we as a non-profit do not have any assets to be used as collateral, and the management of Gratiot Central Market is not in any way contributing with guarantees or liabilities towards this project. We were able to use our grant agreement, specifically the one with Kellogg foundation as a collateral document.

So with JPMorgan Chase banking officers, they reviewed the grant. They made sure that the sources of funding are dedicated to this project, and in the future the grant proceeds will go directly towards paying down that line of credit. This is to bridge the construction costs.

So the CEDHFFI grant that was the single source of funding for the Green Grocer was based upon objectives of becoming ((inaudible)) utilization strategy around food, creation of jobs and businesses, improvement of Detroit's classification.

Also a reputation as a food ((inaudible)), we really dislike this term because Eastern Market has been around for years. So it's not that fresh and nutritious fruit and vegetables have not been around, it's more about the access to parts of Detroit which, as you know, is a huge city; it's 140 square miles.

And lastly, creating a replicable and sustainable model. We highly encourage everybody on this call but also anybody else that you know who is trying to create a grocery store and might not be in the business of running a grocery store operation, which as we learn is, you know, a specialized skill that most non-profits do not possess. But any lessons learned from this experience we do want to share with other grantees or other non-profits working in the area also improving food access.

So the partnerships that made this project possible was we partnered with Goodwill Industries and Work-First Development. This is the Goodwill Industry of Greater Detroit. And they were able, based on this project, to obtain a large grant from Detroit Lions -- that's our football team -- that supported the ((inaudible)) and the development of specific career tracks within the grocery retail environment.

They have recruited the first cohort of veterans. And as we speak, they are visiting grocery stores in Detroit. They are talking to other partners such as suppliers, they are, you know, working on life skills, transportation issues and other kind of surround services.

Comerica Bank, who was a smaller funder of the project, nevertheless stepped in by providing financial literacy to the veterans. The pre-development research for the groceries, they were able from United Way for Southwest Michigan through their food fund.

We were able to conduct market demand analysis study, and based on that develop a business plan for the Green Grocer. Green Grocer is kind of the working title we have been using around here, but that's for fresh produce.

And then two organizations with whom Eastern Market Corporation has worked in the past extensively -- Keep Growing Detroit and Food Lab Detroit -- they provide support and membership benefits to growers and food makers in the City of Detroit.

And so this grocery store is going to provide output opportunities for the growers and for the food makers, but at the same time they helped us in coming up with the job creation numbers that were needed for the CEDHFFI grant.

Lastly, the grocers, there's going to be owned by a joint venture between Eastern Market Corporation and Community Growth Partners. Community Growth Partners is a non-profit that is backed by faith-based organizations and by a local food service employee's labor union. There objective is to design and develop employee-owned grocery stores.

So this, the (Red Truck) Fresh Produce specifically is envisioned to be owned by the joint venture Eastern Market Corporation and Community Growth Partners for the first two to three years. At that point, we envision it to become financial sustainable and Eastern Market Corporation will exit the partnership and it will be solely owned by CGP.

So to summarize the lessons learned, you can't do it alone; you have to build partnerships. You should reach out to partners that might not be in an area of business of or social enterprise that they have been before, but they're willing to experiment and take chances.

You should absolutely talk to your financial services providers. They are more - at least in our case, they were willing to be flexible beyond what we originally envisioned.

And lastly, foundations like to see their money leveraged by others. While the line of credit originally wasn't envisioned to be part of the financing package, it has definitely improved our relationship with our foundation partners to see that we take this project seriously. And we are looking for it to become financially sustainable without the solid liability on funders.

If anybody has any questions that they want to share with me via email, I'm more than happy to share with you any details about this project.

And now I would like to introduce Brahm Ahmadi. He works for an organization that Eastern Market Corporation would love to partner with; People's Community Market out of Oakland California.

Brahm Ahmadi: Well good morning and good afternoon to East Coast friends. Brahm Ahmadi here; People's Community Market in Oakland California.

We are similarly to the Detroit efforts working on opening a fresh food store here; all format, full service, fresh foods focus community market. That includes a large prepared (sic) foods program as well as a multipurpose room and social hall for offering social and recreational activities which we really see as essential to anchoring the relationship between community building, social cohesion and boarding residents and adopting healthier life styles and healthier eating.

I believe there's a document made available to you that has more details about the project. I won't spend time talking about that because I want to spend the ten minutes that I have talking about our experience in raising capital, how we have come into a sort of integrated finance approach aka how we got to do it essentially if you're looking at the first slide there.

You know, these were not strategies that we knew of or thought of as we came into this work. You know, People's Community Market is essentially an outgrowth of a non-profit organization called People's Grocery which I cofounded in 2002.

And, you know, we are grassroots people, so we never really brought initially a real sophisticated understanding in finance or really understood what kind of very creative approaches we were going to have to take to be successful in securing capital. But frankly, you know, as we found in different stages in our project, it became how we had to do it.

So what I'm going to talk about specifically are two experiences we've had in integrated finance. One in raising an initial sort of tranche of capital through a direct public offering, and secondly, how we are addressing our real estate financing strategy here in the San Francisco Bay Area, which for anyone who's aware of it and of course this is really an increasing national problem, really expensive real estate prices even in very underserved communities which ((inaudible)) and other issues.

So if we can go to the next slide. In 2011 after we put the company together, spun it off from the non-profit, assembled a fantastic board of people with decades of experience in the retail industry and the food service industry, put together a very solid plan, had a lot of sort of support for the idea, and obviously the need in the neighborhood.

We went out and began talking to investors and spent about nine months pitching and meeting with a variety of primarily impact investors. And found, you know, pretty significant misalignment with regards to what those investors were interested in and what there either interest or capabilities were as a community based project.

So first and foremost, a few of those investors were really at all interested in start-ups or in low-margin food businesses. Of course this is 2011, it's still the recession, so many private investors were very gun shy at that time and really looking to invest more in mid-stage and late-stage companies, and particularly not attracted to low-margin food business' profitability there.

And so that correlates to the second point, the rate of return, sort of targets or expectations that most of these investors had or needed to sustain their portfolios was really well-beyond the abilities of this kind of business being a low operating and net margin business. It's simply not possible to produce those kinds of returns. And of course being in the Bay Area where investors are comparing our project to tech companies, energy companies, what have you, you know, there was just no way we could possibly compete or wanted to try.

Obviously the desires for shorter-term investments and for the wrap and scaling were both problematic for us. But what we needed was page (sic) and capital; capital that could really be there for the long-term to allow the business to grow sustainably and organically and sustain good cash flows without trying to participate exit events for investors.

And then of course rapid scale. You know, our focus and commitment is to a specific community; West Oakland, 2600 residents. We have a long track record and story there. So the notion of sort of running out to create a chain, the sort of difficult mindset that that's the way to do it was not really consistent with what we wanted which was local ownership and, again, stable growth.

And then of course the kind of liquidity events, the exit events, that we thought we would have to produce for those kind of investors was really not in line with our own goals specifically for maintaining local ownership and maintaining a very central focus on the mission of producing impact in the community both on health and in job creation.

So we went back to the drawing board essentially and sought advice. We work with a firm here in Oakland called Cutting Edge Capital. If we could go to the next slide.

What we ultimately came upon is called a Direct Public Offering. The firm, Cutting Edge Capital, likes to call it investment crowd funding. It essentially is the ability or the regulatory rights, regulatory approval, to publically offer securities to both accredited and most significantly unaccredited or non-accredited investors, so what I like to call average folks.

And so that was really critical for us because we didn't have a rolodex of high net worth accredited investors that we could reach out to, so they needed to essentially activate the large base of support -- the fan base if you will -- that we had cultivated over a decade at that point to be able to put in capital.

There's plenty of information online about what Direct Public Offerings are, the regulatory frame works for them. They've been around a long time. There are pretty famous examples; Andy's Organic, Ben and Jerry's and other companies did DPOs in early stages of their formation and growth.

These are done on a state-by-state basis so you apply on a state-by-state basis. In our case, we ultimately applied for California Regulatory Approval. We did not bother with any other states because our stronghold of course is here in this state.

The other significant advantage to a Direct Public Offering in addition to be able to take investment from unaccredited investors is that we can market it publically. And that again is very critical for a group that doesn't have, you know, access to a lot of high net worth investors.

So for us running a campaign that was largely word of mouth based, and using a variety of strategies such as public speaking, running advertising, using the Internet and social media, and a fairly significant amount of news coverage -- New York Times, LA Times, San Francisco Chronicle, what have you -- was really critical for us to be able to raise the visibility of what we were doing and get traction with a large number of supporters.

If we can go to the next slide just very briefly, these are the essential terms of how we structured our public offerings, so we were offering preferred shares. However I like to say that this was really equity structured like that, so the terms were actually fixed; fixed rate of return, 3% accumulative and compound dividend as well as a 1% annual store credit, and then a fixed term for liquidation or payback of redemption.

And we felt that that was important primarily to be able to market an investment to unsophisticated investors who perhaps have no previous experience doing so and don't really understand some of the nuances or complexities of equity investment where you don't have a predetermined exit event or predetermined rate of return.

We felt that that was going to be hard to sell, hard to market, hard to educate people about, and so we decided to treat it like a note essentially even though on the balance sheet it is preferred shares; it is shareholder equity.

So if we go to the next slide just to touch on what the results of this campaign were which we ran for 14 months from November of 2012 through the end of 2013.

We raised a little over $1.2 million with 404 shareholders. As you can see from this graph, 84% unaccredited investors, so this was overwhelmingly a campaign that we did all investor, not with the high net worth individuals.

The next slide shows the breakdown of the capital which I think is instructive to show that similarly that while 56% of the investments total capital came from investors putting in $5000 or less. Certainly the handful of higher net worth accredited investors that we did get were very important to helping us reach our total target of the $1.2 million.

And then the third slide or the next slide - excuse me - just shows the breakdown by location. So in addition to being very characteristic as mostly a small investor campaign, this was also a hyper local campaign with almost a half of our investors coming from Oakland, the vast majority coming from the East Bay cities, and almost entirely coming from the San Francisco Bay area.

And of course as we planned this campaign and launched it, these were the assumptions we made that it would be targeted to all investors and that it would be mostly investors who were local and also very very motivated by the mission and the impact. That's really what's driving those investors; it's not the rate of return that's driving them to us. It's really about the passion and the shared alignment for the impact in mission of the work.

So if we go to the next slide I'll touch on the second topic which is the real estate financing strategy. What we faced in West Oakland now is about 18 months of negotiation with seven different property owners who are extremely speculative in nature asking 2 to 300% above the market value of their properties and obviously somewhat of a barrier real estate bubble.

But also in addition to being speculative, many of the land owners are fairly unsophisticated and don't really understand the fundamentals of real estate, the fundamentals of price and market value and asking price.

So there's a confusion, I would say, in the mind of many of these landowners that while residential property prices have gone up dramatically, the reality is that commercial properties have not done so. It's still a community that really struggles to get economic development going, especially in small business and especially along main street commercial corridors. And yet these landowners, because residential is taking off, that their commercial property should be valued much higher.

The problem there of course for us is we're not able to secure the institutional financing to be able to purchase a property at an exasperated rate; simply not possible to bring in enough cash to close that gap between the market value and the ask.

In many cases, we did of course try to negotiate leases, ground leases, long-term leases, and found similarly that the expectations for both rates and terms, very high rates on rent and very low periods of lease terms, you know, 10 or 15 years, whereas we really needed 30 years or more, was simply not viable for us.

And going to the last slide, again, we had to get creative. And in this case what we did was found an impact investor, a cash investor, just a local gentlemen born and raised in Oakland whose been very successful and is very passionate about the City of Oakland the communities which he has ties too.

Really understood our problem of not being able to either reach a viable price for financing or reach a deal with a potential financer at those prices, agreed that he would step essentially as our land banker -- as our source of cash for acquisition.

And so the basic agreement here is that he is willing to acquire one or more sites at rates of up to 200% of market value, so he's willing to go far although not more than double the market value, and is not willing to invest more than $3 million in total for the land acquisition.

Once this is complete, he would act as our landlord, give us a very good deal; couple of years of free rent to build out and launch. Very low rate of rent going from there with an open ended agreement that exit him by year ten of this deal.

And so we're getting close to that. He is about to go into escrow on the first property. This in our parent site plan is an assemblage of two different sites. So after he is gone into escrow on the first property, we'll be finalizing or moving towards trying to finalize a deal for the second property.

So that's essentially what we've had to do. For me the theme is be creative and do it the way you've got to do it. We've always been very tenacious and push through the barriers that we've faced as a start up, as an early stage company in a very expensive real estate environment.

And I'm sure that as move through the next phases and pass this current milestone, we'll equally have to get creative. And our hope there is that this capital stack that we've begun to build with these two first phases of financing will position us for a great partnership with some eventual financing institution.

So I'll wrap it up there and I'm going to pass it on to Bob Porter who's Managing Director of Business Advising and Lending ((inaudible)) in the San Francisco Bay area.

Bob.

Bob Porter: Thanks Brahm.

Just a quick little bit of background about myself. I spent a couple decades in corporate finance and corporate banking before moving over to Pacific Community Ventures about two years ago.

Pacific Community Ventures is a CDFI. On the next slide, a CDFI is explained as a community development finance institution. We're actually sanctioned and set up through the Department of Treasury, but the nice thing about CDFIs is we don't have to conform to the oversight and regulations that banks do under the Department of Treasury.

By focusing, in the second paragraph, on citizens who are in underserved communities or in communities where there are ignored by traditional banks or can't get access to lending in traditional banks, we're able to avoid a lot of the oversight and regulatory ((inaudible)) that the banks have to comply with. Because of that, we're often less stringent and we're often more innovative in what we can do to help small businesses, help through initiatives, those type of things.

There's actually hundreds of CDFIs across the United States. I think virtually every state including Alaska and Hawaii has CDFIs. They're wonderful very innovative financial tool and financial institution that was founded more than a decade ago.

And unfortunately what we've found is there's a lot of economic development associations and particularly a lot of small businesses just aren't aware that CDFIs are out there as a resource.

CDFIs are actually locally controlled. We have our own local board of directors typically, we have our own local lending committees both internally or perhaps externally. And by avoiding all the regulatory issues, we can actually help people that we typically see other institutions being unable to help.

PCV is a California only lender. Our license is just in California. There are other CDFIs out there that are national or multi-state. I can just speak on the California issues.

In the next slide, I try to give a comparison of the differences between a CDFI like Pacific Community Ventures or we refer to ourselves as PCV versus a traditional bank.

We can help businesses that have only been around 18 months. We've even gone down to businesses that have only been in existence maybe 13 or 14 months, but we felt comfortable with them; profitable for only 12.

Typically collateral is not the biggest issue. In fact, we've done many many loans where there was actually no collateral, but we believed in the mission; we believed in the low to moderate income community that was being served. And we believed in the business.

Our credit scoring, you know, we make our own rules. Our credit scoring goes down to roughly 500. We would look at a deal in the 400s, we're not excluding anyone. We try to do every deal that we can possibly do.

Bankruptcies/foreclosures, particularly in California, big issue. When the bubble burst in 2009, we see a lot of businesses that have a bankruptcy or foreclosure either in the ownership or in the business itself, and we're still able to do those deals.

Debt service coverage; we officially say that we go down to 1.1. We've actually done deals where the debt service coverage is much lower than that as long as we feel they can afford the debt payment and we feel it's a viable loan opportunity.

And then we finance up to 100% whereas banks typically would only go up to 80%. So we can help businesses that, as a traditional banker in my past life, I would have had absolutely no opportunity to help, and banks currently are just not interested in funding because of the issues that they face from trying to comply with regulations, trying to comply with the lending being that they have to state that they're going to live by the community here. And just in keeping their loan portfolios healthy as they ((inaudible)) and not be very risk ((inaudible)).

So I want to give an example of a partnership that just recently happened here in the Bay Area. So it was a start-up entrepreneur who had two successful previous start-ups. He was looking for $600,000 in funding. The bank was not interested - any of the banks were not interested in doing any type of a start-up funding particularly in the low income community that he was wanting to start his business in.

We partnered with another organization here in the Bay Area; we're each putting in $200,000 in low interest debt for a total of $400,000. And then they've also (sic) the other organization for good jobs has also structured $200,000 in convertible debt so that there is an equity/debt component to get a total of $600,000.

Without PVC and putting (sic) good jobs or without another partnership similar to ours, you know, this start up would never have gotten the funding that they needed. They could not qualify for ((inaudible)) lending; the banks were not interested. It would have been difficult to get this project off the ground.

We're very happy when the CDFIs and the other non-profits come together to be able to fund any type of a business especially in the low-income community like this.

So in the next slide I wanted to give an example of a CDFI that's actually - he's particularly funding healthy foods since that's the topic of conversation today. LISC is Local Initiative Support Corporation; they're based in Chicago. They actually do loans up to $3 million for both non-profit and for-profit healthy food businesses. They have very affordable fixed rates, very affordable underwriting costs and very flexible terms.

In the interest of time, I want to pass it back over to Matt and take whatever questions for the group.

Matthew Lee: Thanks Bob.

And just to kind of continue that thought, I would recommend as a resource, the folks who aren't in California and can reach out to Pacific Community Ventures to check out Opportunity Finance Network; that's OFN.org.

And for those who don't know, OFN is an organization that is a wholesale supporter of CDFIs throughout the United States. And they have a really accessible and easy-to-use portal to identify what the local and regional CDFIs are in your area and your state.

You know, one question that's come up Bob, and I was curious if you could take this is, you know, what would you advice to everyone listening in in terms of how and when to approach a

CDFI. You know, let's just say they receive grant funding or they're thinking about, you know, getting grant funding in this upcoming fiscal year.

When should they start the conversation with you if they haven't already?

Bob Porter: I think as early as possible. You know, most of us in the industry, we attend the OFN Conference, which you just mentioned OFN. We tend to know each other if not very well at least in general. We typically know what other CDFIs can offer that perhaps we can't.

And if we can't help, we typically know where to point you or where to send you. So by getting involved very early, if we can't help we can typically point you in the right direction and make sure you get the help that you are looking for.

Matthew Lee: And you know, one concern that I've heard a few times is the concept of a fatigue syndrome from banks, right. So you have your financial model, the project, the business plan is all written out, and then you approach a CDFI and then there's, as many of us have experienced, some roadblocks in terms of timeline; milestones aren't hit.

And so there's a concern of reaching people too early or talking to people too early on that in the process where there's some hurdles that are likely going to come down the road.

What would you say to that if someone said, "Does the fatigue syndrome exist with CDFI lenders?"

Bob Porter: No, I don't think so. I think in my conversations - in fact I was just on a CDFI call yesterday through OFN and it was all about lending.

All of us have capital to lend; all of us are looking for more applicants. I don't think that there's fatigue out there. I think if someone approaches us in general we're very upfront on how we can help, how we can't help and what the next steps are.

Matthew Lee: And one last question there and this is kind of to Jela's conversation, is leveraging the CED grant for a revolving loan or some sort of access to working capital, particularly which is an issue with start-up grocery stores and food hubs.

What sort of structures would be available from either PCV or other organizations that you're familiar with that are worth mentioning?

Bob Porter: In terms of using the grant or in terms of looking for work in capital? PCV...

(Crosstalk)

Matthew Lee:...using the grant...

Bob Porter: Using the grant would be fantastic way to leverage additional debt through a CDFI. I mean we're not particularly looking for a lot of collateral, but the grant is great first-level funding that we can leverage them with more debt.

We don't as an organization ((inaudible)) through line of credits. But there are many CDFIs out there that do. And something like a grant being on the books would be very attractive.

Matthew Lee: Mm-hm. And so I'll shift a question to Brahm. Brahm, one thing that's unique about your business and in particular with, just looking at the list here and everyone on the call, is that you're a private company.

And I was wondering if you could talk a little bit about your partnership approach in the community with non-profits to, you know, in sort of the steam of integrated finance and how that's also helping you to access, you know, other types of capital or mobilizing more capital in the community. Not so much for people's community market, but for say the real estate piece or in West Oakland in general.

Do you want to talk a little bit about that.

Brahm Ahmadi: Yes, sure. You know, West Oakland really needs a market like this not only for the healthy food access issues and the need for the jobs, but buy or bring some kind of a catalyst project into the neighborhood that can really begin to re-energize the community development work and by greater focus to the collaborative efforts that are out there around that which mostly are non-profit organizations involved.

So in particular there's one collaborative called the San Pueblo Area Revitalization Coalition. It includes the East Basic Local Development Corporation, some city agencies, a number of other non-profit organizations in the area and a couple of churches -- more prominent churches. So that's a great coalition that has really gotten behind what we're doing.

Also the neighborhood association called West Oakland Neighbors which is the oldest neighborhood association in the City of Oakland has really gotten behind what we're doing.

And all of these partners have been critical in addressing the current and very different barrier to getting a deal on real estate because they are, in their own ways, reaching out to property owners, doing some community organizing, reaching out to the city on our behalf, really just doing a lot of advocacy. It has really kind of, in some ways, beyond our own bandwidth or even appropriate for us to do as a private interest.

So while I think we all share the vision of how the impacts may be for this kind of project, some of these non-profit partners really see that they play a key role in galvanizing critical support for it to happen.

So far none of that has translated into dollars -- financial support -- but it has been really critical, and first and foremost I think really validating the level of support that we have, validating the level of need that is there, validating that this is a genuine project rooted in a community with strong community support. And that has and continues to open a lot of doors for us.

Matthew Lee: And, you know, that kind of touches the theme too that you all started talking about the importance of partnerships, and interestingly she has a different lens, right, looking at through a non-profit's perspective and partnering with private institutions.

Jela, is there anything you want to talk about in terms of partnerships and the ((inaudible)) latest phase of the Detroit Market or Eastern Market is kind of an add-on to what Brahm is talking about in terms of - I am particularly with the similarities you both are realizing with speculative landowners, the price of real estate getting high and the need for subsidies in order to acquire the real estate?

Jela Ellefson: Yes, absolutely. We have been feeling that pressure.

I just found out today that a recent sale of a 30,000 square foot building that was sold at auction for just shy of $2 million actually did not go through. This was quite a shock to everybody the fact that it garnered such a high price. It's a building in the Eastern Market District.

I think in Eastern Market specifically this real estate pressure also from the perspective of displacement. A lot of African-American owners are being displaced by out of spate (sic) of investors who are able to either pick up properties on auction, and it might sound really bad but there's a lot of building owners that do not realize that their buildings are going up for auction as with the case with (Burt's).

We at Eastern Market Corporation are looking into community development on direction because we see our role as perhaps a co-development partner with a lot of maybe unsophisticated building owners, and helping them through conversion of their buildings and bringing our expertise in grant writing and bringing additional sources of funding, and also being able to preserve the authenticity of the district.

So for example if a building owner would like to continue doing his wholesale distribution business out of, you know, prime piece of real estate, but at the same time has an idea that, you know, the utilization of this current building might not be up to the 100% what it could be.

We would like to join in through and LLC, bring in expertise, maybe fund some of the pre-development soft cost and helping a new configuration for the building where you can put retail store fronts facing the street. And maybe your wholesale distribution would discern access from the back of the building while before, you know, the wholesale distribution was the primary use of taking up a lot of the store frontage along the street.

So these pressures are definitely what pushes us into command development. But as for CDFI, I will be presenting actually next week at a CDFI College in the Detroit CDFI College (sic) on opportunities for involvement in Eastern Market District because we have a very robust network of CDFIs. But I think that sometimes it is difficult to fit within the underwriting criteria of a lot of CDFIs, and it requires a lot of flexibility that not everybody might have.

Matthew Lee: So our time is short here and I think we have time for one more question. And Bob, I thought I'd turn this to you as someone with background in traditional lending and your progressive eye.

And I was wondering, you know, if you could just share some knowledge and experience around, you know, taking on debt. You know, there's a risk there I'm not sure I've always considered, and other organizations I work with may have considered until the debt payment and interest payment start to come in.

And I was wondering if there was anything you would share in terms of just thought process that people should consider as they start to approach lenders like yourself, maybe gut checking questions. Is there anything that comes to mind that people should be asking themselves?

Bob Porter: Well I think first, is debt really what's needed? Is there another alternative like a Direct Public Offering? Secondly, you know, if debt the answer, is it on the terms that are best for whatever your organization is rather than just take whatever debt might be first available. Take the time to really think about it and decide is this the proper type of debt.

And then thirdly, if debt is used, make sure it's used for the original purpose that it was intended for. If it was for a project, use it for the project. If it's your working capital, then carefully use it for working capital.

I see too often, you know, a business or an organization will take on some debt for a specific reason. Something else comes up during that timeframe to get off course, and by getting off course then they get into a little bit of trouble.

Matthew Lee: Great. Well there we have it. We're at the end of our hour here and I just wanted to take the final minutes here to thank everyone for your time and your questions and all your work around the country.

Just a reminder that this conversation has been recorded and it will be posted on OCS's Web site, and there you can also find previous webinars and presentations.

And you can also keep an eye out too for our upcoming webinars October 8 and October 22. We started to touch on a point that the October 22 webinar is the second part of this financial series. And that will be with a CDFI organization talking about healthy food financing.

In the meantime, please keep your questions coming along. We'd love to follow-up with you and all the contact information from our presenters are here and they'd be happy to follow-up with you as well.

And again, thank you all for your time and I look forward to our next meeting. Thank you all.

Operator: This does conclude today's conference. Thank you for your participation.

END